



Ingquza Hill Local Municipality
Adjusted Annual Financial Statements
for the year ended 30 June 2019

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

General Information

Members of the Executive Council and Leadership

Mayor: Councillor B Goya
Speaker: Councillor N Capa
Chief Whip: Councillor M Nkungu
MPAC Chair: Councillor S H Mtshazo
Members Interest Chair: Councillor P Dutshwa
Public Participation and Petitions Committee Chair: Councillor Z Mhlongo
Woman's Caucus Chair: Councillor B J Nkani
Member of the Executive Committee: Councillor M R Ziphathe
Member of the Executive Committee: Councillor B Mabhedumana
Member of the Executive Committee: Councillor B B Goya
Member of the Executive Committee: Councillor T Jotile
Member of the Executive Committee: Councillor V Somani
Member of the Executive Committee: Councillor B Mvulani
Member of the Executive Committee: Councillor M M Mkumla
Member of the Executive Committee: Councillor N A Gagai
Member of the Executive Committee: Councillor S B Vatsha

Grading of local authority

Grade 3: Low Capacity

Acting Municipal Manager

M Gqada

Acting Chief Finance Officer (CFO)

B. Nobongoza

Registered office

135 Main Street
Flagstaff
4810

Business address

135 Main Street
Flagstaff
4810

Postal address

P.O. Box 14
Flagstaff
4810

Bankers

First National Bank

Auditors

Auditor-General (South Africa)

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

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| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the adjusted annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the adjusted annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the adjusted annual financial statements and was given unrestricted access to all financial records and related data.

The adjusted annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The adjusted annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. Furthermore the accounting officer is responsible for preparation of Annual Financial Statements of the municipality and within two months after the end of the financial year to which those statements relates, submit the statement to the Auditor General for auditing in terms of S126(1)(2) of the Municipal Finance Management Act of 2003.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the adjusted annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's adjusted annual financial statements. The adjusted annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The adjusted annual financial statements set out on pages 5 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:


M Gqada
Acting Municipal Manager



Report of the Auditor General

To the Provincial Legislature of Ingquza Hill Local Municipality

Auditor-General (South Africa)

30 August 2019

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 1 134 393 857 and that the municipality's total assets exceed its liabilities by R 1 134 393 857.

The adjusted annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

2. Subsequent events

Disciplinary hearings were initiated during the financial year. These are progressing well in the 2019/2020 financial year. The appointment of the audit committee was finalised in the 2019/2020 financial year. The accounting officer is not aware of any other matter or circumstance arising since the end of the financial year.

3. Accounting Officer

The accounting officer of the municipality at the beginning of the year to 12 February 2018 was Mr M. Fihlani. Mr M. Gqada acted in this position from 13 February 2018 up to the date of this report.

M Gqada (Acting Municipal Manager)

4. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit and risk committee

During the year under review the Chairperson of the audit committee Dr Mancotywa and two members submitted their resignation letters at end March, 2019. This resulted in the audit committee being disbanded.

In terms of Section 166 of the Municipal Finance Management Act, the municipality must appoint an audit committee. The municipality was unable to finalise the process of appointing the audit committee before the end of the 2018/2019 financial year. However the council appointed an audit committee on 30 July 2019, an achievement which assisted the municipality in having reviews on the draft AFS.

Internal audit

The municipality has complied with the Municipal Finance Management Act 2003 that requires the municipality to have an internal audit unit. The internal audit unit is managed by a Senior Manager.

5. Lawyers

FT Tayi Incorporated
Ximbo Ncolo and Associates
Jolwana Mgidlana Inc
DM Lukhozi Attorneys Inc
Mjobo Attorneys Legal Advisors
Jafta Inc

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Report

6. Bankers

First National Bank of SA Limited

7. Auditors

Auditor-General (South Africa) will continue in office for the next financial period.

The adjusted annual financial statements set out on pages 5 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:



M Gqada
Acting Municipal Manager

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|--|---------|----------------------|----------------------|
| Assets | | | |
| Non-Current Assets | | | |
| Investment property | 3 | 394 101 560 | 394 101 560 |
| Property, plant and equipment | 4 | 655 438 611 | 602 471 024 |
| Investment held as collateral | 5 | 6 474 472 | 6 474 472 |
| | | 1 056 014 643 | 1 003 047 056 |
| Current Assets | | | |
| Inventories | 6 | 19 239 067 | 18 891 463 |
| Receivables from exchange transactions | 7&9 | 6 899 273 | 17 852 031 |
| Receivables from non-exchange transactions | 8&9 | 6 873 613 | 16 233 550 |
| VAT receivable | 10 | 18 118 503 | 7 586 586 |
| Cash and cash equivalents | 11 | 86 141 470 | 74 150 663 |
| | | 137 271 926 | 134 714 293 |
| Total Assets | | 1 193 286 569 | 1 137 761 349 |
| Liabilities | | | |
| Non-Current Liabilities | | | |
| Other financial liabilities | 12 | - | 6 940 838 |
| Provisions | 15 | 6 225 748 | 4 782 408 |
| | | 6 225 748 | 11 723 246 |
| Current Liabilities | | | |
| Other financial liabilities | 12 | 6 940 838 | - |
| Payables from exchange transactions | 13 | 41 655 953 | 36 123 829 |
| Unspent conditional grants and receipts | 14 | 1 037 420 | 2 958 536 |
| Provisions | 15 | 3 032 753 | 8 001 110 |
| | | 52 666 964 | 47 083 475 |
| Total Liabilities | | 58 892 712 | 58 806 721 |
| Net Assets | | 1 134 393 857 | 1 078 954 628 |
| Accumulated surplus | | 1 134 393 857 | 1 078 954 628 |

* See Note 34

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|---|---------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges: Refuse | | 1 236 778 | 1 134 823 |
| Rental income | 16 | 759 715 | 859 125 |
| Other income | 17 | 4 282 026 | 8 028 581 |
| Interest received | 18 | 8 533 469 | 7 815 521 |
| Total revenue from exchange transactions | | 14 811 988 | 17 838 050 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 19 | 22 398 746 | 21 541 089 |
| Transfer revenue | | | |
| Government grants & subsidies | 20 | 301 616 187 | 282 601 586 |
| Fines | 21 | 1 020 037 | 2 309 510 |
| Total revenue from non-exchange transactions | | 325 034 970 | 306 452 185 |
| Total revenue | | 339 846 958 | 324 290 235 |
| Expenditure | | | |
| Employee related costs | 22 | (118 190 624) | (109 727 860) |
| Remuneration of councillors | 23 | (22 596 307) | (21 165 435) |
| Depreciation | | (47 758 608) | (41 569 352) |
| Increase in provision for impairment | | (24 174 320) | (1 996 655) |
| Finance costs | 24 | (231 131) | (583 029) |
| Contracted services | 25 | (2 957 825) | (6 169 728) |
| Fair value adjustments | | - | (45 715 070) |
| Actuarial losses | | (502 703) | - |
| General Expenses | 26 | (56 692 496) | (50 089 595) |
| Repairs and maintenance | 27 | (11 303 716) | (9 597 118) |
| Total expenditure | | (284 407 730) | (286 613 842) |
| Surplus for the year | | 55 439 228 | 37 676 393 |

* See Note 34

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|----------------------|----------------------|
| Opening balance as previously reported | 1 107 233 856 | 1 107 233 856 |
| Adjustments | | |
| Correction of errors | (65 955 621) | (65 955 621) |
| Balance at 01 July 2017 as restated* | 1 041 278 235 | 1 041 278 235 |
| Changes in net assets | | |
| Surplus for the year | 37 676 393 | 37 676 393 |
| Total changes | 37 676 393 | 37 676 393 |
| Opening balance as previously reported | 1 070 134 705 | 1 070 134 705 |
| Adjustments | | |
| Correction of errors | 8 819 924 | 8 819 924 |
| Restated* Balance at 01 July 2018 as restated* | 1 078 954 629 | 1 078 954 629 |
| Changes in net assets | | |
| Surplus for the year | 55 439 228 | 55 439 228 |
| Total changes | 55 439 228 | 55 439 228 |
| Balance at 30 June 2019 | 1 134 393 857 | 1 134 393 857 |

Note(s)

* See Note 34

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

| Figures in Rand | Note(s) | 2019 | 2018 Restated* |
|---|-----------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Rates | | 32 739 483 | 17 410 624 |
| Refuse | | 8 832 172 | 8 388 540 |
| Grants | | 303 537 303 | 281 912 328 |
| Other receipts | | 3 565 214 | 17 895 380 |
| | | 348 674 172 | 325 606 872 |
| Payments | | | |
| Employee costs and councillors remuneration | | (140 786 931) | (130 893 295) |
| Suppliers | | (99 758 257) | (79 562 949) |
| | | (240 545 188) | (210 456 244) |
| Net cash flows from operating activities | 29 | 108 128 984 | 115 150 628 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 4 | (104 440 515) | (99 110 604) |
| Receipts from financial assets | | - | (485 579) |
| Interest Income | | 8 533 469 | 7 815 521 |
| Net cash flows from investing activities | | (95 907 046) | (91 780 662) |
| Cash flows from financing activities | | | |
| Finance lease payments | | - | (195 320) |
| Finance costs | | (231 131) | (583 029) |
| Net cash flows from financing activities | | (231 131) | (778 349) |
| Net increase/(decrease) in cash and cash equivalents | | 11 990 807 | 22 591 617 |
| Cash and cash equivalents at the beginning of the year | | 74 150 663 | 51 559 046 |
| Cash and cash equivalents at the end of the year | 11 | 86 141 470 | 74 150 663 |

* See Note 34

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|--------------------|----------------------|--|---|-----------|
| Figures in Rand | | | | | | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 1 286 000 | - | 1 286 000 | 1 236 778 | (49 222) | |
| Rental of facilities and equipment | 1 482 000 | - | 1 482 000 | 759 715 | (722 285) | |
| Licences and permits | 138 000 | (38 000) | 100 000 | - | (100 000) | |
| Other income - (rollup) | 10 873 282 | (1 849 000) | 9 024 282 | 4 282 026 | (4 742 256) | |
| Interest received - investment | 41 099 000 | 29 444 000 | 70 543 000 | 8 533 469 | (62 009 531) | |
| Total revenue from exchange transactions | 54 878 282 | 27 557 000 | 82 435 282 | 14 811 988 | (67 623 294) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 28 628 000 | - | 28 628 000 | 22 398 746 | (6 229 254) | |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 231 918 000 | (200 000) | 231 718 000 | 301 616 187 | 69 898 187 | |
| Fines, Penalties and Forfeits | 364 000 | (150 000) | 214 000 | 1 020 037 | 806 037 | |
| Total revenue from non-exchange transactions | 260 910 000 | (350 000) | 260 560 000 | 325 034 970 | 64 474 970 | |
| Total revenue | 315 788 282 | 27 207 000 | 342 995 282 | 339 846 958 | (3 148 324) | |
| Expenditure | | | | | | |
| Personnel | (143 497 000) | - | (143 497 000) | (118 190 624) | 25 306 376 | |
| Remuneration of councillors | (22 954 000) | - | (22 954 000) | (22 596 307) | 357 693 | |
| Depreciation and amortisation | (41 000 000) | - | (41 000 000) | (47 758 608) | (6 758 608) | |
| Impairment loss/ Reversal of impairments | - | - | - | (24 174 320) | (24 174 320) | |
| Finance costs | (1 173 000) | - | (1 173 000) | (231 131) | 941 869 | |
| Contracted Services | (2 120 000) | (580 000) | (2 700 000) | (2 957 825) | (257 825) | |
| General Expenses | (99 881 000) | (2 093 000) | (101 974 000) | (56 814 089) | 45 159 911 | |
| Repairs and maintenance | - | - | - | (11 182 123) | (11 182 123) | |
| Total expenditure | (310 625 000) | (2 673 000) | (313 298 000) | (283 905 027) | 29 392 973 | |
| Operating surplus | 5 163 282 | 24 534 000 | 29 697 282 | 55 941 931 | 26 244 649 | |
| Actuarial gains/losses | - | - | - | (502 703) | (502 703) | |
| Surplus before taxation | 5 163 282 | 24 534 000 | 29 697 282 | 55 439 228 | 25 741 946 | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 5 163 282 | 24 534 000 | 29 697 282 | 55 439 228 | 25 741 946 | |
| Reconciliation | | | | | | |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

| Budget on Cash Basis | | | | | | |
|--|----------------------|----------------------|----------------------|------------------------------------|--|-----------|
| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
| Figures in Rand | | | | | | |
| Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Inventories | 309 000 | 18 891 000 | 19 200 000 | 19 239 067 | 39 067 | |
| Receivables from exchange transactions | 67 804 000 | 13 320 000 | 81 124 000 | 6 899 273 | (74 224 727) | |
| Receivables from non-exchange transactions | 67 804 000 | 50 970 000 | 118 774 000 | 6 873 613 | (111 900 387) | |
| VAT receivable | - | - | - | 18 118 503 | 18 118 503 | |
| Cash and cash equivalents | 161 165 000 | 79 871 000 | 241 036 000 | 86 141 470 | (154 894 530) | |
| | 297 082 000 | 163 052 000 | 460 134 000 | 137 271 926 | (322 862 074) | |
| Non-Current Assets | | | | | | |
| Investment property | 439 967 000 | 394 102 000 | 834 069 000 | 394 101 560 | (439 967 440) | |
| Property, plant and equipment | 570 439 000 | 602 471 000 | 1 172 910 000 | 655 438 611 | (517 471 389) | |
| Investment held as collateral | 36 660 000 | 6 474 000 | 43 134 000 | 6 474 472 | (36 659 528) | |
| | 1 047 066 000 | 1 003 047 000 | 2 050 113 000 | 1 056 014 643 | (994 098 357) | |
| Total Assets | 1 344 148 000 | 1 166 099 000 | 2 510 247 000 | 1 193 286 569 | (1 316 960 431) | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Other financial liabilities | 7 056 000 | 6 826 000 | 13 882 000 | 6 940 838 | (6 941 162) | |
| Payables from exchange transactions | 2 265 000 | 36 739 000 | 39 004 000 | 41 655 953 | 2 651 953 | |
| Unspent conditional grants and receipts | - | - | - | 1 037 420 | 1 037 420 | |
| Provisions | - | - | - | 3 032 753 | 3 032 753 | |
| | 9 321 000 | 43 565 000 | 52 886 000 | 52 666 964 | (219 036) | |
| Non-Current Liabilities | | | | | | |
| Provisions | 59 144 000 | 10 189 000 | 69 333 000 | 6 225 748 | (63 107 252) | |
| Other financial liability | - | 4 924 000 | 4 924 000 | - | (4 924 000) | |
| | 59 144 000 | 15 113 000 | 74 257 000 | 6 225 748 | (68 031 252) | |
| Total Liabilities | 68 465 000 | 58 678 000 | 127 143 000 | 58 892 712 | (68 250 288) | |
| Net Assets | 1 275 683 000 | 1 107 421 000 | 2 383 104 000 | 1 134 393 857 | (1 248 710 143) | |
| Net Assets | | | | | | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Accumulated surplus | 1 275 683 000 | 1 107 421 000 | 2 383 104 000 | 1 134 393 857 | (1 248 710 143) | |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Adjusted Annual Financial Statements

The adjusted annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These adjusted annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these adjusted annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These adjusted annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These adjusted annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the adjusted annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the adjusted annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the adjusted annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|-------------------------------------|---------------------|---------------------|
| Buildings | Straight line | 50 years |
| Infrastructure | Straight line | 7 - 24 years |
| Community | Straight line | 10 - 180 years |
| Other property, plant and equipment | Straight line | 3 - 15 years |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

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1.6 Financial instruments (continued)

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;

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Accounting Policies

1.6 Financial instruments (continued)

- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|--|--|
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| VAT receivable | Financial asset measured at amortised cost |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|--|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Unspent conditional grants and receipts | Financial liability measured at amortised cost |
| Other financial liabilities | Financial liability measured at amortised cost |

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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Accounting Policies

1.6 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

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Accounting Policies

1.8 Inventories (continued)

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

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Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Employee benefits

1.12 Provisions

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

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Accounting Policies

1.12 Provisions (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the time proportion basis method.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.19 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The adjusted annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.21 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arms length or not in the ordinary course of business are disclosed.

1.22 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.22 Events after reporting date (continued)

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|--|---|--|
| • GRAP 18 (as amended 2016): Segment Reporting | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 20: Related parties | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 32: Service Concession Arrangements: Grantor | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 105: Transfers of functions between entities under common control | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 106 (as amended 2016): Transfers of functions between entities not under common control | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 107: Mergers | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 108: Statutory Receivables | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 109: Accounting by Principals and Agents | 01 April 2019 | Unlikely there will be a material impact |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

Figures in Rand

3. Investment property

| | 2019 | | | 2018 | | |
|---------------------|-------------|-----------------------|----------------|-------------|-----------------------|----------------|
| | Valuation | Fair value adjustment | Carrying value | Valuation | Fair value adjustment | Carrying value |
| Investment property | 394 101 560 | - | 394 101 560 | 439 816 630 | (45 715 070) | 394 101 560 |

Reconciliation of investment property - 2019

| | Opening balance | Total |
|---------------------|-----------------|-------------|
| Investment property | 394 101 560 | 394 101 560 |

Reconciliation of investment property - 2018

| | Opening balance | Fair value adjustments | Total |
|---------------------|-----------------|------------------------|-------------|
| Investment property | 439 816 630 | (45 715 070) | 394 101 560 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

| | 2019 | | | 2018 | | |
|-------------------------------------|--------------------|---|--------------------|--------------------|---|--------------------|
| | Cost | Accumulated depreciation and accumulated impairment | Carrying value | Cost | Accumulated depreciation and accumulated impairment | Carrying value |
| Buildings | 53 894 191 | (2 959 106) | 50 935 085 | 52 947 455 | (2 008 860) | 50 938 595 |
| Infrastructure | 730 859 604 | (241 392 941) | 489 466 663 | 643 366 774 | (204 333 360) | 439 033 414 |
| Community | 94 455 584 | (13 679 132) | 80 776 452 | 91 245 312 | (10 464 223) | 80 781 089 |
| Other property, plant and equipment | 62 339 505 | (28 079 094) | 34 260 411 | 51 050 511 | (19 332 585) | 31 717 926 |
| Total | 941 548 884 | (286 110 273) | 655 438 611 | 838 610 052 | (236 139 028) | 602 471 024 |

Reconciliation of property, plant and equipment - 2019

| | Opening balance | Additions | Transfers | Depreciation | Impairment loss | Total |
|-------------------------------------|--------------------|--------------------|---------------------|---------------------|--------------------|--------------------|
| Buildings | 50 938 595 | 553 881 | - | (557 391) | - | 50 938 595 |
| Infrastructure | 439 033 414 | 143 793 108 | (54 033 190) | (36 783 212) | (2 543 457) | 489 466 663 |
| Community | 80 781 089 | 3 210 272 | - | (3 214 909) | - | 80 776 452 |
| Other property, plant and equipment | 31 717 926 | 10 916 449 | - | (8 373 964) | - | 34 260 411 |
| | 602 471 024 | 158 473 710 | (54 033 190) | (48 929 476) | (2 543 457) | 655 438 611 |

Reconciliation of property, plant and equipment - 2018

| | Opening balance | Additions | Transfers | Depreciation | Impairment loss | Total |
|-------------------------------------|--------------------|--------------------|---------------------|---------------------|-----------------|--------------------|
| Buildings | 51 495 985 | - | - | (557 390) | - | 50 938 595 |
| Infrastructure | 387 019 950 | 124 939 303 | (38 819 223) | (34 106 616) | - | 439 033 414 |
| Community | 80 486 205 | 4 948 179 | - | (4 653 296) | - | 80 781 089 |
| Other property, plant and equipment | 29 395 833 | 8 042 345 | - | (5 658 615) | (61 642) | 31 717 926 |
| | 548 397 979 | 137 929 827 | (38 819 223) | (44 975 917) | (61 642) | 602 471 024 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

4. Property, plant and equipment (continued)

Plant, property and equipment

4.1. Breakdown of assets categories:

| | |
|--------------------------|---|
| Buildings: | Buildings |
| Infrastructure: | Access Roads High Masts Street lights Work in progress |
| Community assets: | Community Halls Drivers License testing center Fencing Graveyard Sport field Wetlands Viewing Deck |
| Other assets: | Computer equipment Fire arms Furniture and fittings Landfill site Motor vehicles Mobile office Plant and equipment Tools |

4.2. Landfill site

The municipality operated a Landfill site, included in the Other plant, property and equipment. The Landfill site was not utilised from 23 September 2018, as the Mdikane community is preventing the use of the Landfill site. The municipality is in the process of derecognising the asset. The asset will be derecognised and the provision for rehabilitation will be reversed, once Council approval is obtained.

4.3. Capital commitments

| Approved Contracts for: | 2019 | 2018 |
|-------------------------|-----------|------------|
| Infrastructure | 6 293 459 | 9 399 259 |
| Community | 268 989 | 3 390 766 |
| Offices | | 1 032 358 |
| Bins | | 747 194 |
| Surfacing (Newtown) | 4 753 127 | 21 820 035 |
| Landfill sites | 285 128 | 1 538 498 |
| Wetlands | | 915 093 |
| Sportfields | 259 747 | 1 133 160 |
| Taxi Rank | 4 134 528 | |
| R61 Construction | 1 945 932 | |

These assets will be funded from:

| | | |
|----------------------|------------|------------|
| Grants and subsidies | 6 293 459 | 9 399 259 |
| Own revenue | 11 647 451 | 30 577 104 |

These commitments represent the reminder of contracts signed by the Municipality for the development of projects that took longer than expected to complete. As a result, at year end, they are still pending.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|--------------------|--------------------|
| 4. Property, plant and equipment (continued) | | |
| Property, plant and equipment in the process of being constructed or developed | | |
| Cumulative expenditure recognised in the carrying value of property, plant and equipment | | |
| Access Roads | 12 335 118 | 34 775 471 |
| Electrification | 39 828 795 | 29 165 003 |
| Municipal Offices | 55 824 925 | 51 825 955 |
| Community Halls | 16 115 198 | 12 613 565 |
| Street Lights | 72 963 | 72 963 |
| Landfill Site | 3 223 644 | 1 970 274 |
| Facelifts (Town) | 7 760 557 | 3 109 680 |
| High Mast Lights | 16 131 390 | 559 751 |
| Public Toilets | 791 839 | - |
| Sport Fields | 10 037 174 | - |
| R61 Construction | 1 005 892 | - |
| | 163 127 495 | 134 092 662 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Investment held as collateral

At amortised cost

| | | |
|--|-----------|-----------|
| Rand Merchant Bank | 6 474 472 | 6 474 472 |
| The investment is pledged as security for a loan with the DBSA and the municipality has no access to the investment until the loan is repaid in September 2019. This investment is zero coupon bond. | | |

Non-current assets

| | | |
|-------------------|-----------|-----------|
| At amortised cost | 6 474 472 | 6 474 472 |
|-------------------|-----------|-----------|

6. Inventories

| | | |
|--------------------------|-------------------|-------------------|
| Properties Held for sale | 18 694 741 | 18 694 741 |
| Consumables | 544 326 | 196 722 |
| | 19 239 067 | 18 891 463 |

7. Receivables from exchange transactions

| | | |
|---------------------------|------------------|-------------------|
| Deposits | 2 742 820 | 2 742 820 |
| Rental debtors | 19 948 | 50 267 |
| Land sales debtors | 3 870 593 | 7 197 638 |
| Consumer debtors - Refuse | 265 912 | 7 861 306 |
| | 6 899 273 | 17 852 031 |

Rental debtors

During the reconciliation of rental income, the municipality discovered that outstanding rentals at year end were recorded as operating lease assets and the relating income received in the subsequent year was not matched to the debtors raised. The municipality corrected the error retrospectively by correcting the 2017 opening balance and the 2018 movement. See note 34

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|---------------------|---------------------|
| 7. Receivables from exchange transactions (continued) | | |
| Land sales debtors | | |
| During the reconciliation of Land sale debtors, the municipality discovered that receipts from land sales relating to prior year Land sale debtors were recorded as income and not matched to debtors raised. The municipality corrected the error retrospectively by correcting the 2018 movement. See note 34 | | |
| 8. Receivables from non-exchange transactions | | |
| Fines | 6 740 255 | 5 879 455 |
| Consumer debtors - Rates | 133 358 | 10 354 095 |
| | 6 873 613 | 16 233 550 |
| 9. Consumer debtors disclosure | | |
| Gross balances | | |
| Consumer debtors - Rates | 62 615 590 | 57 083 631 |
| Consumer debtors - Refuse | 8 687 536 | 7 861 306 |
| | 71 303 126 | 64 944 937 |
| Less: Allowance for impairment | | |
| Consumer debtors - Rates | (62 482 232) | (46 729 536) |
| Consumer debtors - Refuse | (8 421 624) | - |
| | (70 903 856) | (46 729 536) |
| Net balance | | |
| Consumer debtors - Rates | 133 358 | 10 354 095 |
| Consumer debtors - Refuse | 265 912 | 7 861 306 |
| | 399 270 | 18 215 401 |
| Rates | | |
| 31 - 60 days | 12 891 | - |
| 61 - 90 days | 120 467 | - |
| 121 - 365 days | - | 49 354 |
| > 365 days | - | 10 304 741 |
| | 133 358 | 10 354 095 |
| Refuse | | |
| 31 - 60 days | 110 862 | 112 446 |
| 61 - 90 days | 155 050 | 101 445 |
| 91 - 120 days | - | 100 037 |
| 121 - 365 days | - | 740 790 |
| > 365 days | - | 6 806 588 |
| | 265 912 | 7 861 306 |
| 10. VAT receivable | | |
| VAT | 18 118 503 | 7 586 586 |
| The municipality is registered on the payment basis. VAT is declared to SARS on receipt of payments from customers and claimed once payment is made to suppliers. | | |
| During the reconciliation of VAT receivable, the municipality discovered that VAT receipts were recorded as income and not matched to receivables raised. The municipality corrected the error retrospectively. See note 34 | | |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---------------------------------------|-------------------|-------------------|
| 11. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 35 | 35 |
| Bank balances | 86 141 435 | 74 150 628 |
| | 86 141 470 | 74 150 663 |

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | Cash book balances | |
|--|-------------------------|-------------------|--------------------|-------------------|
| | 30 June 2019 | 30 June 2018 | 30 June 2019 | 30 June 2018 |
| First National Bank - 6224175712 - Primary account | 239 630 | 7 354 570 | (4 881 897) | 1 582 640 |
| First National Bank - 62003235307 - Call account | - | 25 663 091 | - | 25 663 091 |
| First National Bank - 62219877836 - Call account | 212 956 | 205 749 | 212 956 | 205 749 |
| First National Bank - 74233699310 - Call account | 38 433 372 | 24 346 761 | 38 433 372 | 24 346 761 |
| First National Bank - 62231474537 - Call account | 468 798 | 4 546 046 | 468 798 | 4 546 046 |
| First National Bank - 62231473761 - Call account | 22 109 795 | 17 806 376 | 22 109 795 | 17 806 376 |
| First National Bank - 62792758503 - Call account | 29 798 446 | - | 29 798 446 | - |
| Total | 91 262 997 | 79 922 593 | 86 141 470 | 74 150 663 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|-------------------|-------------------|
| 12. Other financial liabilities | | |
| At amortised cost | | |
| The Development Bank of Southern Africa Limited (DBSA) | 6 940 838 | 6 940 838 |
| Loan from DBSA which is repayable on 30 September 2019. The loan has a fixed interest rate of 6,75% per annum. The loan shall be repaid in 1 (one) bullet payment at the end of the term from proceedings of zero coupon bond. The loan is secured by the investment held with FNB - RMB, which is ceded to the DBSA: | | |
| - Account: RMB | | |
| - Account number: 128331 | | |
| - Value: R 6 474 472 | | |
| The loan was used to support sustainable infrastructure development and improve the quality of life at Ingquza Hill Local Municipality. | | |
| Non-current liabilities | | |
| At amortised cost | - | 6 940 838 |
| Current liabilities | | |
| At amortised cost | 6 940 838 | - |
| 13. Payables from exchange transactions | | |
| Trade payables | 9 835 962 | 7 252 114 |
| Prepaid income | 4 015 164 | 3 936 072 |
| Retentions with held from contractors | 17 641 690 | 16 261 898 |
| Accrued leave pay | 9 414 139 | 7 907 499 |
| Net salaries clearance | 748 998 | 766 246 |
| | 41 655 953 | 36 123 829 |
| 14. Unspent conditional grants and receipts | | |
| Unspent conditional grants and receipts comprises of: | | |
| Unspent conditional grants and receipts | | |
| Integrated National Electrification Programme Grant (INEP) | - | 2 958 536 |
| Local and Regional Economic Development (Small Towns Revamp) | 1 037 420 | - |
| | 1 037 420 | 2 958 536 |
| Movement during the year | | |
| Balance at the beginning of the year | 2 958 536 | 468 377 |
| Additions during the year | 75 092 071 | 71 637 000 |
| Income recognition during the year | (77 013 187) | (69 146 841) |
| | 1 037 420 | 2 958 536 |

See note 20 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

During the reconciliation of Unspent conditional grants, the municipality discovered that the unconditional grant received, LED grant, was incorrectly disclosed as a conditional grant. The municipality corrected the error retrospectively by correcting the 2017 opening balance. See note 34

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

15. Provisions

Reconciliation of provisions - 2019

| | Opening Balance | Additions | Utilised during the year | Actural gain/(loss) | Total |
|---------------------|-------------------|------------------|--------------------------|---------------------|------------------|
| Landfil site | 426 570 | - | - | - | 426 570 |
| Bonus provision | 6 129 886 | 933 395 | (4 961 115) | - | 2 102 166 |
| Long Service Awards | 6 227 062 | 213 105 | (213 105) | 502 703 | 6 729 765 |
| | 12 783 518 | 1 146 500 | (5 174 220) | 502 703 | 9 258 501 |

Reconciliation of provisions - 2018

| | Opening Balance | Additions | Utilised during the year | Actural gain/(loss) | Total |
|---------------------|-------------------|---------------|--------------------------|---------------------|-------------------|
| Landfil site | 364 443 | 62 127 | - | - | 426 570 |
| Performance bonus | 8 459 918 | - | (8 459 918) | - | - |
| Bonus provision | 8 459 918 | - | (2 330 032) | - | 6 129 886 |
| Long Service Awards | 5 920 472 | - | (7 430) | 314 020 | 6 227 062 |
| | 23 204 751 | 62 127 | (10 797 380) | 314 020 | 12 783 518 |

| | | |
|-------------------------|------------------|-------------------|
| Non-current liabilities | 6 225 748 | 4 782 408 |
| Current liabilities | 3 032 753 | 8 001 110 |
| | 9 258 501 | 12 783 518 |

Landfil site

Provision for the restoration of the landfill site. The Municipality received an approval by the Office of The Environmental Affairs to operate a Landfill site.

The Landfill site was not utilised from 23 September 2018, as the Mdikane community is preventing the use of the Landfill site. The municipality is in the process of derecognising the asset. The asset will be derecognised and the provision for rehabilitation will be reversed, once Council approval is obtained.

Performance bonus

This is a provision for performance bonuses due to all Section 57 managers in 2017 financial year. It was based on 14% of annual, all inclusive, salary as at 30 June 2017. The provision was reversed in the 2018 financial year.

Bonus provision

This is a provision for the service bonus payable to employees as at 30 June 2019. The accrual calculation is based on the thirteen cheque payable that falls due within the current year. The municipality has an obligation to pay a service bonus in terms of its condition of employment.

Long service award

The Municipality offers employees long service awards for every five years of service completed, from ten years of service to 45 years of service, inclusive. This provision is unfunded.

The municipality utilised the services of ARCH Actuarial Consulting to report on the actuarial valuation of the Long Service Award as at 30 June 2019. The report was prepared by Chanan Weiss (BSc), an approved pension fund valuator and a member of the Actuarial Society of South Africa (ASSA), with 20 years of experience.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|------------------|------------------|
| 15. Provisions (continued) | | |
| Key assumptions | | |
| Discount rate: | 8,14% | |
| General earnings inflation rate: | 5,55% | |
| Net effective discount rate: | 2,45% | |
| Average retirement age: | 62 years | |
| Mortality during employment: | 85 - 90 years | |
| 16. Rental of facilities and equipment | | |
| Premises | | |
| Community hall rental | 33 117 | 11 918 |
| Lease rentals | 726 598 | 847 207 |
| | 759 715 | 859 125 |
| 17. Other income | | |
| Advertising fee income | 190 170 | 201 250 |
| Agency fee income | 3 664 453 | 3 376 445 |
| Building plan approval | 254 614 | 33 556 |
| Cemetery and burial fee income | 33 295 | 26 230 |
| Commission | 31 827 | - |
| Discount | - | 61 465 |
| Insurance refund | 31 018 | 6 600 |
| Licences and permits | 35 069 | 3 516 401 |
| Rezoning and subdivision | 12 436 | 19 641 |
| Tender documents | 29 144 | 186 993 |
| Vuna award | - | 600 000 |
| | 4 282 026 | 8 028 581 |
| 18. Investment revenue | | |
| Interest revenue | | |
| Bank | 8 533 469 | 7 815 521 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---------------------------|-------------------|-------------------|
| 19. Property rates | | |
| Rates received | | |
| Residential | 53 296 | 56 442 |
| Bussiness | 22 345 450 | 21 484 647 |
| | 22 398 746 | 21 541 089 |

Valuations

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The following rates are applied to property valuations to determine assessment rates:

Residential property - 0,015 (2018: 0,015)
Bussiness property - 0,02 (2018: 0,02)

The following rebates are granted to property owners:

Residential property - 40% (2018: 40%)
Bussiness property - 20% (2018: 20%)

Rates are levied on an annual basis.

The new general valuation will be implemented on 01 July 2019.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|--------------------|--------------------|
| 20. Government grants and subsidies | | |
| Operating grants | | |
| Equitable share | 224 603 000 | 210 127 000 |
| Local Government Service SETA (L.G. SETA) | 271 030 | 570 996 |
| Local Government Financial Management Grant (FMG) | 1 700 000 | 1 700 000 |
| Expanded Public Works Programme Integrated Grant (EPWP) | 1 398 000 | 1 880 000 |
| | 227 972 030 | 214 277 996 |
| Capital grants | | |
| Integrated National Electrification Programme Grant (INEP) | 15 308 536 | 12 009 843 |
| Local and Regional Economic Development (Small Towns Revamp) | 2 559 621 | 102 747 |
| Libraries Archives and Museums (Library Grant) | 800 000 | 774 000 |
| Municipal Infrastructure Grant (MIG) | 54 976 000 | 55 437 000 |
| | 73 644 157 | 68 323 590 |
| | 301 616 187 | 282 601 586 |
| Municipal Infrastructure Grant (MIG) | | |
| Current-year receipts | 54 976 000 | 55 437 000 |
| Conditions met - transferred to revenue | (54 976 000) | (55 437 000) |
| | - | - |
| Expanded Public Works Programme Integrated Grant (EPWP) | | |
| Current-year receipts | 1 398 000 | 1 880 000 |
| Conditions met - transferred to revenue | (1 398 000) | (1 880 000) |
| | - | - |
| Local Government Financial Management Grant (FMG) | | |
| Current-year receipts | 1 700 000 | 1 700 000 |
| Conditions met - transferred to revenue | (1 700 000) | (1 700 000) |
| | - | - |
| Integrated National Electrification Programme Grant (INEP) | | |
| Balance unspent at beginning of year | 2 958 536 | 468 379 |
| Current-year receipts | 12 350 000 | 14 500 000 |
| Conditions met - transferred to revenue | (15 308 536) | (12 009 843) |
| | - | 2 958 536 |
| Local and Regional Economic Development (Small Towns Revamp) | | |
| Current-year receipts | 3 597 041 | 102 747 |
| Conditions met - transferred to revenue | (2 559 621) | (102 747) |
| | 1 037 420 | - |
| Libraries Archives and Museums (Library Grant) | | |
| Current-year receipts | 800 000 | 774 000 |
| Conditions met - transferred to revenue | (800 000) | (774 000) |
| | - | - |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|------------------|------------------|
| 20. Government grants and subsidies (continued) | | |
| Local Government Service SETA (L.G. SETA) | | |
| Current-year receipts | 271 030 | 570 996 |
| Conditions met - transferred to revenue | (271 030) | (570 996) |
| | - | - |
| 21. Fines | | |
| Building Fines | 74 371 | 21 659 |
| Pound Fines | 39 766 | 44 651 |
| Municipal Traffic Fines | 905 900 | 2 243 200 |
| | 1 020 037 | 2 309 510 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|--------------------|--------------------|
| 22. Employee related costs | | |
| Basic | 73 118 483 | 63 426 239 |
| Bonus | 4 822 384 | 4 494 166 |
| UIF, Medical aid and Bargaining council | 6 611 840 | 6 119 017 |
| WCA | 562 540 | 939 315 |
| SDL | - | 895 490 |
| Leave pay | 677 391 | 1 899 955 |
| Resettlement cost | - | 31 321 |
| Overtime payments | 6 417 992 | 7 541 764 |
| Long-service awards | - | 306 590 |
| Acting allowances | 339 902 | 310 432 |
| Car allowance | 6 407 244 | 5 571 015 |
| Housing benefits and allowances | 1 647 761 | 1 628 846 |
| Cellular and telephone allowance | 596 500 | 530 351 |
| Pension | 9 739 166 | 8 698 861 |
| Staff costs | 110 941 203 | 102 393 362 |
| Remuneration of Municipal Manager | | |
| Annual Remuneration | 1 084 741 | 1 081 977 |
| Car Allowance | 194 589 | 146 604 |
| Contributions to UIF, Medical and Pension Funds | 1 785 | 270 406 |
| | 1 281 115 | 1 498 987 |
| Remuneration of Chief Finance Officer | | |
| Annual Remuneration | 808 028 | 1 718 859 |
| Car Allowance | 113 169 | 164 621 |
| Contributions to UIF, Medical and Pension Funds | 1 785 | - |
| Acting Allowance | 24 963 | - |
| | 947 945 | 1 883 480 |
| Remuneration of Administrative and Corporate Support Director | | |
| Annual Remuneration | 1 052 471 | 805 647 |
| Contributions to UIF, Medical and Pension Funds | 1 785 | - |
| | 1 054 256 | 805 647 |
| Remuneration of Economic Development and Planning Director | | |
| Annual Remuneration | 1 052 471 | 915 336 |
| Contributions to UIF, Medical and Pension Funds | 1 785 | - |
| | 1 054 256 | 915 336 |
| Remuneration of Infrastructure and Technical Services Director | | |
| Annual Remuneration | 1 701 977 | 961 894 |
| Car Allowance | 81 642 | 194 836 |
| Cellphone Allowance | 73 974 | 75 769 |
| | 1 857 593 | 1 232 499 |
| Remuneration of Community Services Director | | |
| Annual Remuneration | 737 166 | 689 100 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|--------------------|--------------------|
| 22. Employee related costs (continued) | | |
| Car Allowance | 216 158 | 212 144 |
| Contributions to UIF, Medical and Pension Funds | 81 439 | - |
| Other | 19 493 | 97 305 |
| | 1 054 256 | 998 549 |
| Total employee related costs | | |
| Municipal Manager | 1 281 115 | 1 498 987 |
| Chief Finance Officer | 947 945 | 1 883 480 |
| Administration and Corporate Support Director | 1 054 256 | 805 647 |
| Economic Development and Planning Director | 1 054 256 | 915 336 |
| Infrastructure and Technical Services Director | 1 857 593 | 1 232 499 |
| Community Services Director | 1 054 256 | 998 549 |
| Section 56 Managers | 7 249 421 | 7 334 498 |
| Staff costs | 110 941 203 | 102 393 362 |
| Total employee related costs | 118 190 624 | 109 727 860 |
| 23. Remuneration of councillors | | |
| Mayor | 863 906 | 836 713 |
| Speaker | 703 000 | 677 531 |
| Chief Whip | 826 239 | 637 736 |
| Executive Committee | 4 878 930 | 5 346 150 |
| Other councillors | 15 324 232 | 13 667 305 |
| | 22 596 307 | 21 165 435 |
| 24. Finance costs | | |
| Other financial liabilities | 231 131 | 583 029 |
| 25. Contracted services | | |
| Consultants and Professional Services | | |
| Business and Advisory | 575 391 | 5 588 515 |
| Assessment fees - Designs | 18 890 | 176 067 |
| Contractors | | |
| Event Promoters | 2 107 759 | (38 230) |
| Tracing Agents and Debt Collectors | 255 785 | 443 376 |
| | 2 957 825 | 6 169 728 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|-------------------|-------------------|
| 26. General expenses | | |
| Advertising | 940 021 | 1 202 013 |
| Allowance ward admin | 5 729 250 | 5 760 631 |
| Auditors remuneration - External auditors | 3 832 115 | 2 756 627 |
| Awards | 427 758 | 86 720 |
| Bank charges | 101 363 | 85 911 |
| Burial services | 45 856 | 33 547 |
| Bursaries and learnerships | 1 659 875 | 1 646 798 |
| Business and advisory | 3 318 746 | - |
| Catering services | 2 591 578 | 1 882 728 |
| Consumables - Materials | 3 945 702 | 2 713 902 |
| Electricity infrastructure | - | 5 607 978 |
| Employee wellness | 23 275 | 17 621 |
| External Insurance | 1 422 046 | 1 482 695 |
| Fuel and oil | 4 470 965 | 2 191 788 |
| Hire charges | 1 016 936 | 650 905 |
| Increase / (decrease) in provisions | (2 521 080) | - |
| Indigent relief | 4 541 394 | 3 438 448 |
| Internal auditors | 160 243 | 620 031 |
| Legal fees | 8 709 897 | 4 515 329 |
| Licencing | 316 461 | 137 930 |
| Pest control | - | 12 390 |
| Printing and stationery | 445 690 | 668 233 |
| Professional bodies membership and subscriptions | 86 598 | 2 613 534 |
| Promotions | 235 560 | 144 319 |
| Protective clothing | 839 891 | 107 167 |
| Seating allowance for Traditional council | 514 800 | 477 400 |
| Telephone | 4 202 823 | 3 308 012 |
| Transport and freight | 665 360 | 1 090 655 |
| Travel - local | 8 969 373 | 6 836 283 |
| | 56 692 496 | 50 089 595 |
| 27. Repairs and maintenance | | |
| Property, plant and equipment | 11 303 716 | 9 465 262 |
| Computer installation | - | 131 856 |
| | 11 303 716 | 9 597 118 |
| 28. Operating surplus | | |
| Operating surplus for the year is stated after accounting for the following: | | |
| Impairment of other receivables from non-exchange transactions | 24 174 320 | 1 996 655 |
| Depreciation on property, plant and equipment | 47 758 608 | 41 569 352 |
| Employee costs | 140 786 931 | 130 893 295 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|--------------------|--------------------|
| 29. Cash generated from operations | | |
| Surplus | 55 439 228 | 37 676 393 |
| Adjustments for: | | |
| Depreciation | 48 929 476 | 44 975 917 |
| Fair value adjustments | - | 45 715 070 |
| Interest income | (8 533 470) | (7 815 523) |
| Finance costs | 231 131 | 583 029 |
| Impairment deficit | 24 174 320 | 1 957 358 |
| Movements in provisions | (3 525 017) | (658 620) |
| Impairment - PPE | 2 543 457 | 61 642 |
| Changes in working capital: | | |
| Inventories | (347 604) | 4 197 475 |
| Receivables from exchange transactions | 2 531 134 | (11 296 676) |
| Other receivables from non-exchange transactions | (6 392 759) | 5 705 132 |
| Payables from exchange transactions | 5 532 124 | 12 841 888 |
| VAT | (10 531 920) | (18 103 199) |
| Unspent conditional grants and receipts | (1 921 116) | (689 258) |
| | 108 128 984 | 115 150 628 |

30. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

| | At amortised cost | Total |
|--|--------------------|--------------------|
| Receivables from exchange transactions | 6 717 794 | 6 717 794 |
| Receivables from non-exchange transactions | 6 873 613 | 6 873 613 |
| Cash and cash equivalents | 86 141 470 | 86 141 470 |
| VAT receivable | 18 299 618 | 18 299 618 |
| | 118 032 495 | 118 032 495 |

Financial liabilities

| | At amortised cost | Total |
|---|-------------------|-------------------|
| Other financial liabilities | 6 940 838 | 6 940 838 |
| Payables from exchange transactions | 40 294 660 | 40 294 660 |
| Unspent conditional grants and receipts | 1 037 420 | 1 037 420 |
| | 48 272 918 | 48 272 918 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

30. Financial instruments disclosure (continued)

2018

Financial assets

| | At amortised cost | Total |
|--|----------------------|--------------------|
| Receivables from exchange transactions | 17 852 031 | 17 852 031 |
| Receivables from non-exchange transactions | 16 233 550 | 16 233 550 |
| Cash and cash equivalents | 74 150 663 | 74 150 663 |
| VAT receivable | 7 586 586 | 7 586 586 |
| | 115 822 830 | 115 822 830 |

Financial liabilities

| | At amortised cost | Total |
|---|----------------------|-------------------|
| Other financial liabilities | 6 940 838 | 6 940 838 |
| Payables from exchange transactions | 36 123 829 | 36 123 829 |
| Unspent conditional grants and receipts | 2 958 536 | 2 958 536 |
| | 46 023 203 | 46 023 203 |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

31. Contingencies

Contingent liabilities for 2019 amounted to R 28 203 586 as follows:

4 claims have been instituted against the municipality totalling 148 300 with estimated legal costs of R 125 000 for alleged unlawful removal of containers. The outcome may favor any of the parties involved.

4 claims have been instituted against the municipality totalling R 2 029 526 for alleged contractual disputes with estimated legal costs of R 390 000. The outcome may favor any of the parties involved.

A claim has been instituted against the municipality totalling R 100 000 with estimated legal costs of R 50 000 for alleged wrongful arrest. The outcome may favor any of the two parties involved.

3 claims have been instituted against the municipality totalling R 13 789 195 with estimated legal costs of R 1 400 000 for alleged demolition. The outcome may favor any of the parties involved.

A claim has been instituted against the municipality with estimated legal costs of R 300 000 for alleged unlawful removal as Mayor. The outcome may favor any of the two parties involved.

A claim has been instituted against the municipality with estimated legal costs of R 150 000 for alleged wrongful suspension. The outcome may favor any of the two parties involved.

A claim has been instituted against the municipality totalling R 37 565 with estimated legal costs of R 70 000 for damage arising out of a pothole at R61. The outcome may favor the municipality as the chances are 80/20 in favour of the municipality.

A claim has been instituted against the municipality for R 9 000 000.00 with estimated legal costs of R 400 000 for alleged unlawful shooting of member of the public. The outcome may favor any of the two parties involved.

A claim has been instituted against the municipality for R 24 000 00 with estimated legal costs of R 40 000 for damages on disappearance of livestock from the Pound. The outcome may favor any of the two parties involved.

An interdict has been instituted against the municipality by Luvuyo Melato with estimated legal costs of R 100 000. The outcome may favor any of the two parties involved.

Contingent assets for 2019 amounted to R 10 178 542 as follows:

The municipality has instituted a claim against 4 members of the public for Land Invasion and the estimated legal costs are R 500 000. The outcome may favour any of the two parties involved.

The municipality has instituted a claim against MTN of R1 000 000 with estimated legal costs of R 400 000 for undue Debit orders. The outcome may favour any of the two parties involved.

The municipality has instituted a claim against a member of the public for Reversal of transfer of business sites and the estimated legal costs are R 200 000. The outcome may favour any of the two parties involved.

The municipality has instituted a claim against ex-employees Madikizela, Gonya, Njkeni and others of R 7 518 542 with estimated legal costs of R 440 000 for the alleged unfair dismissal, interpretation of collective agreement and unfair labour practice . The outcome may favor any of the two parties involved.

The municipality has instituted a claim against Quanza Consortium with estimated legal costs of R 120 000 for Contractual Dispute. The outcome may favor any of the two parties involved.

Contingent liabilities for 2018 amounted to R 8 645 442 as follows:

Employees with cases still pending or under arbitration that may favour any of the two parties involved for R1 898 442

Cases against the municipality by people that are suing for Land invasion for R 6 747 000.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

32. Related parties

Interest of related parties

There were no related party transactions during the year.

Services rendered to related parties

The municipality did not render any services to anyone that can be considered to be a related party.

Loans granted to related parties

No loans have been granted to anyone that can be considered to be a related party.

Purchases from related parties

The municipality did not receive goods or services from anyone that can be considered to be a related party.

Related party balances

Audit committee fees

| | | |
|--------------|--------|--------|
| PM Mancotywa | 93 464 | 70 324 |
| VM Songelwa | 52 000 | 19 500 |
| NB Kekana | 19 500 | 13 000 |
| EBD Makhosi | 74 989 | 58 500 |

Councillors with accounts in areas

| | | |
|-----------|-------|-------|
| S Ndarane | 4 684 | 3 865 |
| J Mdingi | 3 656 | 3 232 |
| WF Ranai | 1 935 | - |

Remuneration

Remuneration of management and councillors

Refer to note 22 for remuneration of management and note 23 for the remuneration of councillors.

33. Change in estimate

Allowance for impairment

In the current period management have revised their calculation of allowance for impairment of consumer debtors from providing for 98% of consumer debtors to providing for consumer debtors in arrears over 90 days. The effect of this revision has increased the allowance for impairment for the current period by R 1 026 793

34. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

34. Prior-year adjustments (continued)

2017

| | Note | As previously reported | Correction of error | Restated |
|---|------|------------------------|---------------------|----------------------|
| VAT receivable (refer A below) | 10 | 25 689 786 | (25 689 786) | - |
| Rental debtors (refer B below) | 7 | 1 372 106 | (1 372 106) | - |
| Unspent conditional grants: LED (refer C below) | 14 | (3 179 416) | 3 179 416 | - |
| Accumulated Surplus | | 1 107 233 856 | (65 955 621) | 1 041 278 235 |
| | | 1 131 116 332 | (89 838 097) | 1 041 278 235 |

2018

| | Note | As previously reported | Correction of error | Restated |
|---|------|------------------------|---------------------|----------------------|
| VAT receivable (refer A below) | 10 | 11 688 145 | (8 950 847) | 2 737 298 |
| Land sales debtors (refer E below) | 7 | 9 491 359 | (2 293 721) | 7 197 638 |
| Cash and cash equivalents (refer D below) | | 79 922 629 | (5 771 966) | 74 150 663 |
| Operating lease asset (refer D below) | | - | 1 422 373 | 1 422 373 |
| Receivable from Exchange transactions (refer D below) | | 658 868 | 19 436 617 | 20 095 485 |
| Receivable from Non-Exchange transactions (refer D below) | | 24 035 162 | (7 802 418) | 16 232 744 |
| Payables from Exchange transaction (refer D below) | | (34 834 777) | (1 645 490) | (36 480 267) |
| Accumulated surplus | | 1 070 134 707 | 303 090 | 1 070 437 797 |
| | | 1 161 096 093 | (5 302 362) | 1 155 793 731 |

2019

Statement of financial performance

2018

| | Note | As previously reported | Re-classification |
|------------------------------|------|------------------------|-------------------|
| VAT received (refer A below) | 10 | (6 526 203) | 6 526 203 |

Prior period error adjustments

The following prior period errors adjustments occurred:

A. VAT receivable

During the reconciliation of VAT receivable, the municipality discovered that VAT receipts were recorded as income and not matched to receivables raised. The municipality corrected the error retrospectively by correcting the 2017 opening balance and the 2018 movement.

B. Rental debtors

During the reconciliation of rental income, the municipality discovered that outstanding rentals at year end were recorded as operating lease assets and the relating income received in the subsequent year was not matched to the debtors raised. The municipality corrected the error retrospectively by correcting the 2017 opening balance and the 2018 movement.

C. Unspent conditional grants: LED

During the reconciliation of Unspent conditional grants, the municipality discovered that the unconditional grant received, LED grant, was incorrectly disclosed as a conditional grant. The municipality corrected the error retrospectively by correcting the 2017 opening balance.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

34. Prior-year adjustments (continued)

D. Opening balance adjustments

During the year the municipality identified errors on certain balances reflected in the 2018 Annual Financial Statements. The Municipality corrected the error retrospectively by correcting the 2018 movement.

E. Land sales debtors

During the reconciliation of Land sale debtors, the municipality discovered that receipts from land sales relating to prior year Land sale debtors were recorded as income and not matched to debtors raised. The municipality corrected the error retrospectively by correcting the 2018 movement.

35. Comparative figures

Certain comparative figures have been restated/reclassified.

The effects of the restatement are as follows:

| | As previously reported | | 2018 restated |
|--|------------------------|--|-------------------|
| Revenue from exchange transactions | 21 016 904 | | 17 838 050 |
| Revenue from non-exchange transactions | 309 799 529 | | 306 452 185 |
| Employee related costs | (107 166 887) | | (109 727 860) |
| Remuneration of councillors | (21 635 836) | | (21 165 435) |
| Depreciation | (41 784 674) | | (41 569 352) |
| Increase in provision for impairment | (61 644) | | (1 996 655) |
| Finance costs | (468 056) | | (583 029) |
| Contracted services | (6 169 728) | | (8 956 987) |
| General Expenses | (65 123 830) | | (52 043 983) |
| Repairs and maintenance | (4 748 242) | | (4 855 472) |
| Loss on sale of sites | (1 710 572) | | - |
| | 81 946 964 | | 83 391 462 |

36. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk Management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as, interest rate risk, credit risk and investment of excess liquidity.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|-----------------|------|------|
|-----------------|------|------|

36. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| At 30 June 2019 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|-------------------------------------|------------------|-----------------------|-----------------------|--------------|
| Other financial liabilities | 6 940 838 | - | - | - |
| Payables from exchange transactions | 42 078 247 | - | - | - |
| At 30 June 2018 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| Other financial liabilities | - | 6 940 838 | - | - |
| Payables from exchange transactions | 36 123 831 | - | - | - |

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors.

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Ingquza Hill Local Municipality has a very serious credit risk exposure because of the debtors that are not paying for rates, taxes and services. The Municipality has engaged the use of a debt collector to collect monies owed by the debtors and the Council has resolved to write off 20% of the balance owing for debtors that have agreed to payment terms. The maximum exposure to credit risk is the 100% of the carrying amounts of the Trade payables (refer to Note 9), even for the consumer receivables where the maximum exposure is estimated to be at 100% of the carrying amount of debtors.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Foreign exchange risk

The municipality does not deal with foreign currency and only banks with the approved financial institutions in the country.

Price risk

Not applicable to the municipality.

37. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 1 134 393 857 and that the municipality's total assets exceed its liabilities by R 1 134 393 857.

The adjusted annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|-----------|---------|
| 38. Events after the reporting date | | |
| Disciplinary hearings were initiated during the financial year. These are progressing well in the 2019/2020 financial year. The appointment of the audit committee was finalised on 30 July 2019. The accounting officer is not aware of any other matter or circumstance arising since the end of the financial year. | | |
| 39. Fruitless and wasteful expenditure | | |
| Fruitless and wasteful expenditure | - | 190 139 |
| 40. Irregular expenditure | | |
| Irregular expenditure reported in the current year | 7 287 436 | - |

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|--|------------------|------|
| 40. Irregular expenditure (continued) | | |
| Incidents/cases identified in the current year include those listed below: | | |
| Procurement made outside of SCM | 1 534 251 | - |
| Annual contracts | 5 919 256 | - |
| | 7 453 507 | - |

Included in the Annual contracts amount is expenditure of R 4 387 372 that was identified in the 2019 financial year, but relating to the 2014 to 2018 financial years.

41. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the adjusted annual financial statements.

The municipality had to administer legal disputes between the municipality and Mr M.Fihlani for the cost of R 1 800 000. The municipality required the acquisition of legal services outside the panel of service providers. The reason for these deviations were that the municipality deemed it impractical to use the panel, due to the need for an independent practitioner. This was reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The municipality had to administer legal disputes between the municipality and Mr M.Fihlani at the estimated cost of R 600 000. The services were for the chairing of a hearing process. The municipality required the acquisition of legal services outside the panel of service providers. The reason for these deviations were that the municipality deemed it impractical to use the panel, due to the need for an independent practitioner. This was reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Ingquza Hill Local Municipality

Adjusted Annual Financial Statements for the year ended 30 June 2019

Notes to the Adjusted Annual Financial Statements

| Figures in Rand | 2019 | 2018 |
|---|--------------|--------------|
| 42. Additional disclosure in terms of Municipal Finance Management Act | | |
| Audit fees | | |
| Current year raised | 2 756 627 | 3 827 509 |
| Amount paid - current year | (2 756 627) | (3 827 509) |
| | - | - |
| PAYE, UIF and SDL | | |
| Current year raised | 22 050 029 | 17 042 727 |
| Amount paid - current year | (22 050 029) | (17 042 727) |
| | - | - |
| Medical aid | | |
| Current year raised | 10 836 293 | 4 921 516 |
| Amount paid - current year | (10 836 293) | (4 921 516) |
| | - | - |
| Provident and pension funds | | |
| Current year raised | 14 213 620 | 8 698 862 |
| Amount paid - current year | (14 213 620) | (8 698 862) |
| | - | - |